

[REDACTED]  
[REDACTED]  
[REDACTED]  
JUL 30 1991

Dear Sir or Madam:

We have completed our consideration of your application for recognition of exemption from federal income tax under section 501(c)(4) and section 501(c)(12) of the Internal Revenue Code.

According to your Articles of Incorporation, you were formed for the purpose of furnishing a water supply for general home and domestic purposes to individuals who are members of said corporation residing in the rural areas along [REDACTED].

Your only activity has been to construct a waterline to connect your members with the local [REDACTED] water company line. Your members are outside the boundaries of the existing [REDACTED] water supply company or district. Membership is limited to the existing [REDACTED] members along [REDACTED]. You will maintain this waterline as needed. The cost of the line and any future maintenance is shared equally by members. Water meters are provided by the [REDACTED] District. That entity provides the actual water supply and service and bills members for water usage.

Section 501(c)(4) of the Internal Revenue Code provides exemption for:

"Civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare..."

Section 1.501(c)(4)-1(a)(2)(1) of the Income Tax Regulations provides that:

"An organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterment and social improvements."

An organization will not qualify for exemption under section 501(c)(4) if it operates primarily for the benefit for a private group or segment of the community. For example, a community television antenna organization, whose only activity was to provide television reception for its members, rather than

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname	[REDACTED]						
Date	7/30/91						

[REDACTED]

to benefit the community in general, was held not to qualify under section 501(c)(4). See Revenue Ruling 54-394, 1954-2 C.B. 131.

Section 501(c)(12) provides for the tax-exempt status of benevolent life insurance associations of a purely local character, mutual ditch or irrigation companies, mutual or cooperative telephone companies, or like organizations; but only if 85 percent or more of the income consists of amounts collected from members for the sole purpose of meeting losses and expenses.

The term "like" organization, as used in section 501(c)(12) of the Code, is limited by the type of organizations specified in that section. It is applicable only to those mutual or cooperative organizations that are engaged in activities similar in nature to the public utility type of service or business customarily conducted by the specified organizations. See Revenue Ruling 83-170, 1983-1 C.B. 97. Common types of like organizations qualifying under section 501(c)(12) are mutual or cooperative electric companies and water companies. See Revenue Ruling 67-265, 1967-2 C.B. 205.

An organization will not be considered a like organization of a public utility type of organization merely because it assists its members in providing or obtaining public utility type services. See the court case, *Consumers Credit Rural Electric Cooperative v. Commissioner*, 37 T.C. 136 (1961), which held that an organization that financed the purchase and installation of electrical equipment by members of its member cooperatives was not a like corporation.

In your case, we have determined that you do not qualify for exemption under section 501(c)(4) of the Code because you are operated primarily for the benefit of your private membership rather than to promote the welfare of the community in a broad and general way.

We have also determined that you do not qualify for exemption under section 501(c)(12) of the Code because you are not a public utility-type or "like" organization. You do not actually provide water or other utility services. You are merely maintaining assets, which enables your membership to obtain water service from the [REDACTED] District. You are not directly providing public utility or like services.

Accordingly, because we have determined you do not qualify for tax-exempt status under section 501(c)(4) or section 501(c)(12) of the Code, tax-exempt status is hereby denied. You should file federal income tax returns.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

[REDACTED].

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressee envelope as soon as possible.

If you have any questions, you may contact the person whose name appears on the top of this letter.

Sincerely,

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
District Director

Enclosures:  
Publication 892  
Form 6018